

FISCAL NOTE

Bill #: HB0060

Title: Increase cigarette tax to fund children's health insurance

Primary

Sponsor: John Cobb

Status: As introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date
-------------------	------	-----------------------------	------

Fiscal Summary

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
Revenue:		
General Fund (01)	2,078,671	2,208,683
State Special Revenue (02)	1,212,555	1,252,335
Capital Projects Fund (05)	<u>450,529</u>	<u>478,730</u>
Total	3,741,755	3,939,748
Net Impact on General Fund Balance:	2,078,671	2,208,683

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget		X	Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. The current law tax on cigarettes is 18 cents per pack.
2. A 5.5 cent per pack increase in the cigarette tax implies a 30.56% (5.5 / 18) increase in estimated collections, before accounting for a decrease in collections due to an increase in the tax (see assumption 4).
3. Each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.226%. (MDOR)

(continued)

4. The proposed 5.5 cent increase in the tax on a pack of cigarettes will decrease demand by 1.243% (-.226% * 5.5).
5. Under current law, estimated total collections of the cigarette tax for distribution are estimated to be \$13,431,646 in FY00 and \$13,616,914 in FY01. (ROC)
6. The combination of the increase in price (30.56%) and the decrease in demand (1.243%) due to this bill will result in an increase in total collections of a factor of 1.29 (1.3056 * (1-.01243)).
7. A 1.29 factor increase in collections changes total collections in FY00 to \$17,317,791 and to \$17,556,662 in FY01.
8. Stockpiling will occur and will affect the revenues collected for the first month of the first fiscal year that the tax increase is implemented. Stockpiling would result in a transfer of 10% of the revenues that would ordinarily be projected to be collected in July 1999 and cause these revenues to be accrued in June 1999 instead.
9. Due to stockpiling collections for June 1999 will increase \$110,391 and July 1999 will decrease \$144,390.
10. After adjusting for stockpiling, total collections for FY00 will be \$17,173,401 and will remain at \$17,556,662 in FY01.
11. A floor tax is a method available to deter stockpiling. For the purposes of this fiscal note, it is assumed that no floor tax will be undertaken.
12. Under current law, cigarette revenues are distributed as follows: 73.04% in the general fund, 15.85% in the Long Range Building Program (LRBP) account, and 11.11% in the state special revenue fund (SSR) to the Department of Public Health and Human Services (DPHHS) for maintenance of vets' homes.
13. Under the proposal, cigarette revenues will be distributed as follows: 69.23% in the general fund, 15.02% in the LRBP account, 10.54% in the SSR fund to the DPHHS for maintenance of vets' homes, and 5.21% in the SSR fund to the DPHHS for the children's health insurance program.
14. Tribal agreement deductions from total collections will be increased proportional to the increase in taxes.
15. The calculations for this fiscal note are based on the increase in the tax occurring on July 1, 1999.
16. If CI75 is declared invalid, then the tax increase is effective on the date of the determination of invalidity.
17. If CI75 is declared valid and the tax increase is submitted to and approved by the electorate, it becomes effective July 1, 1999. If the tax increase is submitted to and disapproved by the electorate, then it is void.

FISCAL IMPACT:

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
<u>Revenues:</u>		
General Fund (01)	2,078,671	2,208,683
State Special Revenue (02 – Vets Homes)	317,821	337,633
State Special Revenue (02 – CHIP)	894,734	914,702
Capital Projects Fund (05)	<u>450,529</u>	<u>478,730</u>
Total	3,741,755	3,939,748
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	2,078,671	2,208,683
State Special Revenue (02)	1,212,555	1,252,335
Capital Projects Fund (05)	<u>450,529</u>	<u>478,730</u>
Total	3,741,755	3,939,748

TECHNICAL NOTES:

1. The total cost of CHIP is expected to be \$14,675,493 per year in the next biennium (including \$2,935,099 general fund). In addition, it is estimated that CHIP outreach activities will result in the enrollment of 3,375 additional children on Medicaid at an estimated cost of \$4,785,851 (\$1,333,338 in general fund) in FY 2000 and \$5,045,320 (\$1,373,336 in general fund) FY 2001. The total general fund impact of CHIP addressed in revised subsection 16-11-119(2)(a) of this bill is estimated to be \$4,268,437 in FY00 and \$4,308,435 in FY01.
2. The nation's tobacco companies are expected to raise wholesale prices of cigarettes by 45 cents a pack as a result of the legal settlement with the states. The above analysis does not include the effects of this increase on consumption, as it is not included in the ROC revenue assumptions.
3. The 45-cent increase in the wholesale price of cigarettes will decrease demand by an additional 10.17%.
4. The intent of this legislation appears to be to hold the current cigarette tax revenue amounts for the general fund, the veterans homes, and the long-range building program at the levels determined by the ROC estimates, and direct any new revenues generated from this \$0.055 per pack tax increase to pay for the CHIP program state match and associated increases in medicaid participation. The percentage distribution specified in the bill does not do this. Below are the percentage splits and total revenues generated in order to more closely match the dollar amounts generated by the current law distribution and re-direct any new revenues to the CHIP program. The tax increase would have to be larger to fully fund these costs.

	<u>SFY00</u>	<u>SFY01</u>	<u>Percentage</u>
General Fund	\$9,769,576	\$9,987,605	56.89%
Veteran's Homes	1,486,035	1,519,199	8.65%
CHIP Program	3,797,749	3,882,504	22.11%
Long-Range Building	<u>2,120,041</u>	<u>2,167,354</u>	<u>12.34%</u>
Total	\$17,173,401	\$17,556,662	100.00%